

**Management Advisory Report: Actions Have
Been Taken to Prepare for the Processing of
Deceased Terrorist Victims' Income Tax
Returns, but Additional Work Is Necessary**

August 2002

Reference Number: 2002-10-110

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 6, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report - Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary (Audit # 200210009)

This report presents the results of our review of the adequacy of the Internal Revenue Service's (IRS) efforts to prepare for the processing of tax returns for those individuals killed as a result of terrorist attacks in the United States.

In summary, the IRS developed and implemented a special process to expedite refund claims for deceased victims of terrorist attacks. Specifically, the IRS took action to

- 1) identify deceased taxpayers and provide information and assistance to their families,
- 2) have trained staff available to process the deceased victims' tax returns, and
- 3) update procedures for controlling and working the deceased victims' tax returns.

However, during our review we identified actions that the IRS could take to:

- Identify additional victims on its computer system, provide their families with the information and assistance necessary to file returns claiming tax forgiveness, and ensure that the victims' returns are identified and forwarded to IRS personnel specially trained to work the returns.
- Document and communicate contingency plans designed to ensure that sufficient staff is available to process victims' returns and issue the refunds to families as quickly as possible.
- Develop additional procedures to help ensure that tax forgiveness is accurately and timely provided to victims' families eligible for relief.

Management's Response: IRS management agreed with three of the five recommendations presented in the report and indicated that they have taken or will take corrective actions for these recommendations.

However, IRS management did not agree to offer the families and representatives of the September 11, 2001, and anthrax victims assistance in preparing and filing claims for tax forgiveness at no cost and communicate this policy change to IRS walk-in sites responsible for providing the assistance. Management responded that the IRS has offered assistance to anyone affected by the terrorist activities and that the IRS has made extensive efforts to ensure that relatives and representatives of the victims know that assistance is available. Management also responded that the IRS did not change its policy regarding assistance to families or representatives of the victims, does not charge for assistance, and does not apply return preparation limitations to disaster, Killed in Action (KIA), or Killed in Terrorist Action (KITA) assistance programs. IRS management also did not agree with an outcome measure claiming a reduction in taxpayer burden for an estimated 2,900 victims related to this recommendation because assistance was available through a special toll-free number.

IRS management also disagreed with the recommendation to document their decision to obtain additional technical personnel from each campus to work KITA returns in case of a backlog because the decision to use a third tier of staffing was limited to the Andover Campus. In addition, IRS officials do not anticipate the need to implement any contingencies that were developed because the number of KITA returns received to date has been lower than expected and the amount of time needed to process returns has been within management's estimates.

IRS management also disagreed with the outcome measure claiming increased protection of taxpayer rights for 117 victims because they were in the process of perfecting their list of victims both before and during the audit.

Management's complete response to the draft report is included as Appendix V.

Office of Audit Comment: We identified several discrepancies in IRS management's response to the Draft Report. The following shows the differences between the IRS' response and the IRS' actions during the time we conducted our audit.

The IRS' response states the IRS has made extensive efforts to ensure relatives and representatives know that IRS assistance is readily available and that the IRS is committed to assisting any relative or representative who asks. The response also states that a special assistance number has been established for taxpayers affected by the disaster and that the IRS mailed an information package in March 2002 to relatives and representatives of the victims of terrorist attacks. This information package consisted of *Tax Relief for Victims of Terrorist Attacks* (Publication 3920) and other related tax forms and instructions. Neither the information package sent to the families of the September 11, 2001, and anthrax attacks nor any media releases specifically inform victims' families that the IRS will assist with return and claim preparation. This assistance was specifically offered to the victims of the Oklahoma City attack in a special mailing. We question whether all relatives and representatives for victims of the September 11, 2001, and anthrax attacks knew that the IRS would help with return or claim preparation. Our recommendation was intended to ensure all relatives and representatives would understand the IRS was willing to help them prepare the necessary returns and claims for refund.

The IRS' response also states that the IRS' return preparation limitations do not apply to disaster, KIA, or KITA assistance programs and that it did not change its policy regarding assistance to families or representatives of the victims. IRS procedures state that IRS walk-in offices will assist taxpayers in preparing returns; however, this service is limited to taxpayers with incomes of under \$33,000 and who file specific tax forms. The procedures do not include an exception for taxpayers affected by the disaster, KIA, or KITA programs. IRS management told us they verbally informed the KITA coordinators in March 2002 to advise the field about the KITA exception to the form/income limits but could not provide any documentation to that effect. We also reviewed the minutes to the KITA Project Office conference calls for March 2002 and did not see this mentioned. We question whether all IRS employees involved with providing assistance were aware of this verbal waiver of restrictions. Our recommendation was intended to ensure that when victims' relatives or representatives visited a walk-in site for return preparation assistance, the IRS employee would be aware of the change in procedure and would offer the assistance.

Finally, the IRS' response states that the decision to use a third tier of staffing was limited to the Andover campus. However, during the audit, IRS management informed us their plans included assigning additional personnel at each campus, if necessary, to handle unanticipated backlogs. This contingency plan was not discussed with the other campuses. In April 2002, IRS management informed us they had already requested that an additional third tier of staffing be available, if necessary, from each IRS campus.

It appears that IRS management has changed their decision about a contingency plan for additional staffing. The IRS' response states that management no longer anticipates the need to implement any contingencies that were developed. As a result of this decision by management, we no longer believe that Recommendation 5 is necessary.

Based on our questions about IRS management's actions as stated in the response, we believe our recommendation to offer the families and representatives of the September 11 and anthrax victims assistance in preparing and filing claims for tax forgiveness and communicate this change in policy to IRS walk-in sites is still valid, as are the corresponding outcome measures. Although we strongly urge the IRS to reconsider its disagreement to this recommendation, we do not plan on elevating it as a significant management decision to which we disagree.

Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

Table of Contents

Background	Page 1
The Internal Revenue Service Developed and Implemented a Special Process to Expedite Refund Claims for Deceased Victims of Terrorist Attacks	Page 3
The Internal Revenue Service Can Take Additional Steps to Identify Deceased Taxpayers Eligible for Relief and Provide Information and Assistance to Their Families.....	Page 4
<u>Recommendation 1:</u>	Page 11
<u>Recommendations 2 through 4:</u>	Page 12
Contingency Plans Should Be Documented and Communicated to Ensure Sufficient Staffing Is Available	Page 14
<u>Recommendation 5:</u>	Page 15
Additional Procedures Were Necessary to Work Deceased Terrorist Victims' Income Tax Returns.....	Page 16
Appendix I – Detailed Objective, Scope, and Methodology	Page 19
Appendix II – Major Contributors to This Report.....	Page 22
Appendix III – Report Distribution List	Page 22
Appendix IV – Outcome Measures	Page 23
Appendix V – Management's Response to the Draft Report	Page 25

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

Background

On September 11, 2001, terrorists attacked the United States of America and thousands of people perished as a result. In order to provide relief to the victims of these acts, and certain other attacks, the Congress passed the Victims of Terrorism Tax Relief Act of 2001,¹ which the President signed into law on January 23, 2002.

The Victims of Terrorism Tax Relief Act of 2001 exempts victims from income tax for the year of their death and for prior taxable years, beginning with the taxable year in which the wounds, injury, or illness occurred. It also provides a minimum tax relief benefit of \$10,000 to each deceased victim regardless of the income tax liability of the individual for the eligible tax years. In general, amended returns claiming tax forgiveness must be filed within 3 years from the time the original return was filed or 2 years from the time the tax was paid, whichever is later. Original returns claiming tax forgiveness must be filed within 3 years of the original due date of the return. Oklahoma City victims' families have 1 year from the date of enactment of the Relief Act to file a claim for tax forgiveness.

The Relief Act also reduces the federal estate tax for victims and provides tax-free treatment of qualified disaster relief payments, certain disability income, certain death benefits, and certain cancellations of indebtedness.

This tax relief applies to individuals² that died as a result of:

- Wounds or injury incurred from the terrorist attacks against the United States on April 19, 1995 (Oklahoma City), or September 11, 2001.
- Illness incurred as a result of an attack involving anthrax occurring on or after September 11, 2001, and before January 1, 2002.

We limited the scope of this audit to reviewing the Internal Revenue Service's (IRS) efforts to prepare for the

¹ Pub. L. No. 107-134, 115 Stat. 2427.

² The law does not apply to the perpetrators (participants, conspirators, or their representatives) of the attacks.

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

processing of the victims' income tax returns and did not assess actions related to estate tax return processing. This allowed us to inform management of any issues that could affect the IRS' ability to timely provide tax relief to victims' families.

To accomplish our objective, we interviewed Wage and Investment Customer Account Services staff at the Andover, Atlanta, and Austin Campuses; Wage and Investment Customer Assistance, Relationship, and Education officials in Atlanta; and Taxpayer Advocate management in the National Headquarters and at the Andover, Austin, Atlanta, and Fresno Campuses. We also reviewed program documentation from the Killed in Terrorist Action (KITA) Project Office. Fieldwork was completed during the period January through March 2002. The audit was performed in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

This review is part of the Treasury Inspector General for Tax Administration's (TIGTA) 2002 filing season strategy. The processing of these returns will be included in our filing season audits. Another TIGTA audit³ is focused on the IRS' efforts to provide relief to the surviving individual taxpayers residing in the September 11, 2001, federally declared disaster areas. This relief includes extensions to file tax returns and pay taxes, waive penalties, and abate interest in certain circumstances.

Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

³ *Suspending Activity on the Accounts of Individual Taxpayers Affected by the September 11, 2001, Terrorist Attacks*, Audit Number 200210011.

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

**The Internal Revenue Service
Developed and Implemented a
Special Process to Expedite
Refund Claims for Deceased
Victims of Terrorist Attacks**

Prior to the enactment of the Victims of Terrorism Tax Relief Act on January 23, 2002, the IRS began planning to prepare for the processing of tax returns for the victims killed in the terrorist attacks. Specifically, the IRS decided on October 2, 2001, to expand the processing of KITA returns from one campus to eight campuses due to the anticipated volume of these returns. Also, in October 2001, the IRS established a KITA Project Office at the Andover Campus to coordinate and oversee the IRS' efforts to work the tax returns of victims killed in the terrorist attacks. These efforts were designed to better ensure that taxpayers' claims to receive tax forgiveness are handled consistently and expeditiously.

The Andover Campus was designated as the central filing point for KITA returns. Andover will forward returns to the seven other campuses for processing as necessary. The other campuses where KITA returns may be processed include: Atlanta, Austin, Brookhaven, Cincinnati, Fresno, Kansas City, and Philadelphia. Project officials expect to issue refunds within 30 days of receiving a KITA return unless additional information from the victim's family or representative is needed.

The KITA Project Office has developed a strategy to ensure that assigned personnel are specially trained on how to process KITA returns. In addition to receiving training on the technical aspects of the tax law, the KITA Project Office has ensured that sensitivity training will be provided to better enable IRS personnel to understand the survivors' feelings and more effectively assist them. Further, one employee has been designated as responsible for providing training updates and answers to technical questions to the campuses, based upon the different campuses' experiences to date, and any opinions received from the Chief Counsel's office.

The KITA Project Office developed an action plan that addressed identifying the victims killed in the terrorist attacks, selecting staff to process victims' returns, and updating procedures for working these returns. The IRS took steps to implement the action plan, including

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

contacting third-party sources to obtain identifying information about the victims, arranging for staffing at each of the campuses where KITA returns may be processed, and updating procedures for working the returns.

However, as discussed below, we identified actions that the IRS could take to:

- Identify additional victims on its computer system, provide their families with the information and assistance necessary to file returns claiming tax forgiveness, and ensure that the victims' returns are identified and forwarded to IRS personnel specially trained to work the returns.
- Document and communicate contingency plans designed to ensure that sufficient staff is available to process victims' returns and issue the refunds to families as quickly as possible.
- Develop additional procedures to help ensure that tax forgiveness is accurately and timely provided to victims' families eligible for relief.

The Internal Revenue Service Can Take Additional Steps to Identify Deceased Taxpayers Eligible for Relief and Provide Information and Assistance to Their Families

The IRS has taken action to identify the deceased victims of the September 11, Oklahoma City, and anthrax attacks. By identifying these victims, the IRS can provide their families with the information and assistance necessary to file claims for tax forgiveness. In addition, the IRS can input a special code (KITA indicator)⁴ on its computer system for these victims. The IRS uses this code to help protect the victims' rights to tax forgiveness by systemically identifying victims' tax returns where this relief is not provided. Once the returns are identified, they can be routed to the IRS personnel specially trained to work the returns. These

⁴ This code shows that the taxpayer died as a result of a terrorist action and is entitled to tax forgiveness for the year of death and prior taxable years beginning with the year that the wounds, injury, or illness began. The KITA indicator will cause the processing of a tax return to stop, if it was not worked using KITA procedures, while the IRS determines if the taxpayer is entitled to tax forgiveness. The KITA indicator remains active on the taxpayer's account unless it is removed.

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

efforts should help ensure the IRS provides tax forgiveness to all eligible victims.

However, we identified some concerns related to the IRS' actions to:

- Obtain identifying information about all deceased victims of the terrorist attacks.
- Provide additional information and assistance to victims' families and representatives.
- Place KITA indicators on victims' accounts.

Obtaining identifying information about deceased victims

The IRS began taking action in early October 2001 to identify the victims of the September 11 terrorist attacks and place the KITA indicator on their tax accounts. The IRS obtained information about the September 11 victims from both governmental and non-governmental sources. These sources included the Department of Defense, the Department of Justice, Federal Emergency Management Agency, New York City Police Department, United Airlines, and American Airlines.

Identifying information about the victims could include the victim's name, home address, and social security number. This information was divided among several IRS offices in late October 2001 to input to a database and ensure that the KITA indicator was placed on the September 11 victims' tax accounts when sufficient information was available to identify the victim on the IRS' computer records.

However, the KITA Project Manager informed us of limitations in the reliability and usefulness of the IRS' victim database. Specifically, the KITA Project Manager told us that in many instances the information was incomplete, contained what appeared to be multiple spellings of the same victim's name, or included the names of missing individuals that were later located.

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

We reviewed the database⁵ and confirmed that it contained the names of approximately 4,500 victims, compared to approximately 3,000 deaths reported by New York City, the Department of Defense, United Airlines, and American Airlines. In many cases, the database did not contain sufficient information to ensure that tax relief packages could be provided to each victim's family or that a KITA indicator could be placed on the victim's tax account. For example, the database did not include an address or a social security number for approximately 30 percent of the listed victims.

To obtain more accurate identifying information regarding the victims of the September 11 attacks, the KITA Project Manager took action in late January 2002, to obtain a copy of a database from the New York City Police Department that included the identities of the victims and the identities and mailing addresses of their next of kin. We met with the KITA Project Manager on February 22, 2002, and raised concerns that the request for this database should be elevated to higher IRS management to facilitate the timely receipt of the information. Subsequently, the KITA Project Office contacted the IRS Office of Governmental Liaison for assistance in obtaining the database.

The KITA Project Office received the database on March 4, 2002, and immediately began taking action to identify address information related to the victims' next of kin. Project officials stated that tax relief packages containing information and forms needed to prepare the claims for forgiveness were mailed on March 11, 2002, to the addresses of the victims' next of kin. The IRS plans to use the updated information to ensure that KITA indicators are placed on the victims' accounts.

The KITA Project Office began taking steps to identify the anthrax and Oklahoma City victims in early January 2002. The KITA Project Office researched the Internet and identified the Oklahoma City and anthrax

⁵ This database contained only the names of victims from the September 11th attacks.

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

victims. For the Oklahoma City victims, the KITA Project Manager contacted the Oklahoma State Attorney General's Office to request the names and addresses of the Oklahoma City victims' next of kin. The KITA Project Manager told us that although the Oklahoma City Attorney General's Office would not release the names and addresses of the victims' next of kin to the IRS, they would forward any information provided by the IRS to the victims' families. KITA project officials told us that tax relief packages containing information and forms needed to prepare the claims for forgiveness were mailed by the Oklahoma Attorney General's Office to the Oklahoma City victims' next of kin on March 15, 2002.

By obtaining more accurate identifying information for the victims of these attacks, the IRS is better able to assist victims' families. For example, the IRS has provided victims' families, when sufficient identifying information was available, with information explaining how to file claims to receive the tax forgiveness provided for under the law. Further, the IRS is taking action to input the KITA indicator on victims' accounts to systemically identify those tax returns that may be eligible for tax forgiveness.

Providing information and assistance

Overall, the IRS has done a good job of planning to provide information and assistance to the victims' families related to the filing of KITA returns. These actions were designed to educate the victims' families of their rights to available tax relief and the process to follow to receive tax forgiveness.

For example, the IRS:

- Established a toll-free telephone number for taxpayers affected by the disaster.
- Provided general information about the new law to the public in both information releases and via the IRS Internet site.
- Provided detailed instructions in *Tax Relief for Victims of Terrorist Attacks* (Publication 3920)

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

regarding where and how to file claims for tax forgiveness.

However, we believe that the IRS should also consider taking two additional actions to ensure that all victims' families are: 1) treated consistently and 2) reminded about their right to file a claim for tax forgiveness on behalf of a victim.

The IRS should inform the families of deceased September 11 and anthrax victims that it is willing to prepare victims' tax returns free of charge. During the review, we raised a concern to Wage and Investment Field Assistance officials that the IRS was not providing similar assistance to all victims' families.

Specifically, the IRS Stakeholder Relationship Management Local Council in Oklahoma City invited the family members and representatives of the Oklahoma City bombing victims to its Oklahoma City Office on April 27, 2002. The IRS offered to provide assistance in preparing claims for tax forgiveness at no cost. In addition, the Oklahoma City IRS Office will assist taxpayers in preparing their claims free of charge if they cannot attend on April 27, 2002.

However, responsible officials in the IRS' Field Assistance Office confirmed that similar events were not scheduled to assist the families of September 11 or anthrax victims in preparing their tax returns.

IRS Field Assistance procedures limit the return preparation assistance that can be provided at IRS walk-in sites to: 1) taxpayers with an income under \$33,000 and 2) specific tax forms. When we discussed this with IRS Field Assistance officials, they told us that these limitations were never intended to apply to taxpayers requesting assistance in preparing KITA returns. They stated that they would waive the return preparation limitations for family members and representatives of deceased terrorist victims so that IRS walk-in sites could assist in preparing victims' tax returns. However, the IRS' procedures had not been updated to reflect this, and this change was not communicated to

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

victims' families or the IRS walk-in sites responsible for providing return preparation assistance.

By taking action to waive the return preparation limitations at IRS walk-in sites for the relatives and representatives of deceased victims of September 11 and anthrax, the IRS will be treating victims' families more consistently. Also, communicating this change to the victims' families of the September 11 and anthrax attacks and IRS walk-in sites would help ensure that victims' families are treated consistently and provided the highest level of customer service.

The IRS should remind victims' families of their right to tax forgiveness. During our discussions with the KITA Project Manager, we expressed a concern that even with the IRS' efforts to educate the public and pre-identify and contact victims' families, some family members or representatives may not learn about the relief until the period for filing a claim has passed. For example, survivors and personal representatives of the Oklahoma City victims only have until January 22, 2003, to file an original or amended return to claim a refund.

The KITA Project Manager agreed with our observations, but was unaware of any plans to contact victims' families prior to the end of the claims period to remind them of their right to file a claim for tax forgiveness.

Placing KITA indicators on victims' accounts

By placing a special code (KITA indicator) on its computer system, the IRS can systemically identify victims' tax returns that have not received the special processing that the IRS has established for these returns. Once the returns are identified, they can be routed to the IRS personnel specially trained to work these returns. However, the IRS did not always update each deceased taxpayer's account with the KITA indicator.

We judgmentally sampled the names of 125 individuals identified as victims by third-party sources, performed our own research to obtain the victim's identifying information, and researched IRS computer systems to determine if the

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

KITA indicator was present on the decedents' tax accounts. Our research showed that the KITA indicator was not present on the tax accounts of 29 victims. This included seven victims from the World Trade Center, two victims from the Pentagon, one victim from United Airlines Flight 175, six victims from United Airlines Flight 93, eight victims from the Oklahoma City attack, and all five victims that died as a result of anthrax. In three of the instances, the KITA indicator was placed on a married victim's individual tax account but not on the joint account, even though the taxpayer had a history of filing joint returns.

There were several reasons why the KITA indicator was not always placed on victims' accounts. These reasons included:

- Project Officials stated that the KITA indicator was placed on as many World Trade Center, Pentagon, and airline victims' accounts as quickly as possible. However, the IRS did not always have enough information to identify a victim's tax account, and therefore could not place the indicator on the account.
- The KITA Project Office made a conscious decision not to place the KITA indicator on Oklahoma City victims' accounts because KITA returns that will be filed on behalf of Oklahoma City victims will not be related to the current processing cycle (Tax Year 2001). These KITA returns should be identified in a campuses' statute unit if the front page of the returns do not include the words "KITA - Oklahoma City," because the statute period for obtaining a refund on returns from 1994 and 1995 has already expired.
- Research showed that the KITA indicator was initially placed on the accounts of the anthrax victims in January 2002, but was subsequently removed several days later because the legislation implementing the tax relief had not been enacted yet. The IRS did not want to input the indicators to these

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

accounts prior to the legislation being enacted into law.

We provided this information to the KITA Project Manager and raised a concern that the KITA indicator was not placed on each victim's tax account. The KITA Project Office took immediate action to review the research performed by TIGTA, verified that the accounts did not contain the KITA indicator, and input the indicators to the 29 accounts. The KITA Project Office also took action to identify as many Oklahoma City victims as possible on the IRS computer system and input the KITA indicator to their tax accounts, with the exception of the surviving spouses. The KITA indicator was not input to the tax account of the surviving spouses for the Oklahoma City victims because the IRS did not want to delay the processing of the survivor's current year tax return. In these cases, a history notation was added to the surviving spouse's account.

In addition, the IRS may have initially placed the KITA indicator on the tax accounts of individuals that survived the September 11 terrorist attacks. As stated previously, the original list used by the IRS to identify deceased victims contained the names of more people than the number of victims that perished in the attacks. The KITA Project Manager informed us that some of these individuals were actually missing and later located. As a result, unless the KITA indicator is removed from these accounts using the New York City database, the refunds of some of these individuals may be delayed when the returns are systemically identified for further review.

Recommendations

To better identify and assist victims, we recommend that the KITA Project Office:

1. Complete the research of the IRS' computer records using the identifying information (name, home address, and social security number) from the New York City database, airline listings, and the Pentagon casualty listings and, if necessary, input the KITA indicator on

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

the tax accounts of the victims of the September 11 attacks.

Management's Response: The KITA Project Office completed all updates to its computer records on April 1, 2002.

2. Reconcile the original list of victims used to identify victims that perished in the September 11 attacks to the updated information provided by the New York City Police Department and take action to remove the indicator from the accounts of taxpayers that did not perish in the terrorist attacks.

Management's Response: The KITA Project Office completed the reconciliation of its computer records and the New York City Police Department's victims' database on April 1, 2002.

3. Send out reminder notices to the families of deceased September 11, Oklahoma City, and anthrax victims that have not filed an original or amended KITA return at least 4 months prior to the expiration of the period for filing a claim for tax forgiveness.

Management's Response: The KITA Project Office has created a suspense database to record the filing of returns by victims' relatives or representatives. The KITA Project Office will send reminder letters to the relatives or representatives of Oklahoma City victims, and anthrax and September 11 victims, in September 2002 and December 2002, respectively.

To ensure that all relatives and representatives covered under the Victims of Terrorism Tax Relief Act of 2001 are treated consistently, we recommend that the Director, Customer Assistance, Relationships, and Education; and the Director, Customer Account Services, Wage and Investment Division:

4. Offer the families and representatives of the September 11 and anthrax victims assistance in preparing and filing claims for tax forgiveness at no cost. This offer should be made to victims' families in a

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

special mailing. In addition, this policy change should be communicated to IRS walk-in sites responsible for providing the assistance.

Management's Response: IRS management disagreed with this recommendation. They responded that they have made extensive efforts to ensure that relatives and representatives of the victims know that IRS assistance is available, they did not change their policy regarding assistance to families or representatives of the victims, they do not charge for assistance, and return preparation limitations do not apply to disaster, Killed in Action, or KITA assistance programs.

Office of Audit Comment: The IRS' response states the IRS has made extensive efforts to ensure relatives and representatives know that IRS assistance is readily available and that the IRS is committed to assisting any relative or representative who asks. The response also states that a special assistance number has been established for taxpayers affected by the disaster and that the IRS mailed an information package in March 2002 to relatives and representatives of the victims of terrorist attacks. This information package consisted of Publication 3920 and other related tax forms and instructions. Neither the information package sent to the families of the September 11, 2001, and anthrax attacks nor any media releases specifically inform victims' families that the IRS will assist with return and claim preparation. This assistance was specifically offered to the victims of the Oklahoma City attack in a special mailing. We question whether all relatives and representatives for victims of the September 11, 2001, and anthrax attacks knew that the IRS would help with return or claim preparation. Our recommendation was intended to ensure all relatives and representatives would understand the IRS was willing to help them prepare the necessary returns and claims for refund.

The IRS' response also states that the IRS' return preparation limitations do not apply to disaster, KIA, or KITA assistance programs and that it did not change its policy regarding assistance to families or representatives of

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

the victims. IRS procedures state that IRS walk-in offices will assist taxpayers in preparing returns; however, this service is limited to taxpayers with incomes of under \$33,000 and who file specific tax forms. The procedures do not include an exception for taxpayers affected by the disaster, KIA, or KITA programs. IRS management told us they verbally informed the KITA coordinators in March 2002 to advise the field about the KITA exception to the form/income limits but could not provide any documentation to that effect. We also reviewed the minutes to the KITA Project Office conference calls for March 2002 and did not see this mentioned. We question whether all IRS employees involved with providing assistance were aware of this verbal waiver of restrictions. Our recommendation was intended to ensure that when victims' relatives or representatives visited a walk-in site for return preparation assistance, the IRS employee would be aware of the change in procedure and would offer the assistance.

**Contingency Plans Should Be
Documented and
Communicated to Ensure
Sufficient Staffing Is Available**

The KITA Project Office is taking action to identify staff at each of the eight locations that will process KITA returns. In addition, they developed contingency plans that address obtaining additional staff to work returns if there is a backlog. These actions were designed to ensure that specially trained staff is available to work KITA returns, contact the families of victims to obtain any additional information necessary to process the return, and issue the refund to the families as quickly as possible.

However, these plans should be documented and communicated with all related parties to reduce the risk that sufficient staffing will not be available if the majority of returns are filed at the same time.

The KITA Project Office requested management at the 8 campuses where KITA returns will be worked to identify and provide KITA training to 20 employees. Current plans call for having 15 of these employees available at each campus to work the returns. These employees will be allowed to opt out of the project if the work becomes too stressful.

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

Taxpayer Advocate management in the National Headquarters' Office stated that the National Taxpayer Advocate is committed to providing additional support, if necessary, to the KITA Program. The Taxpayer Advocate Service sent three representatives to KITA training and participates in the bi-weekly conference calls held by the KITA Project Office. In addition, the Taxpayer Advocate Service agreed to provide 10 additional employees at each of the 8 campuses as a contingency in case there is a backlog of cases. However, 3 of the 4 local Taxpayer Advocates that we interviewed were not aware that they may need to provide up to 10 employees from their offices to work KITA returns. We raised this issue to the attention of the Taxpayer Advocate management in the National Headquarters' Office. The Director, Taxpayer Account Operations, took prompt action to remind the local Taxpayer Advocates of the organization's commitment to provide the KITA Project Office with additional support, if necessary.

Because of the unprecedented nature of these efforts, officials from the project office stated that they were unsure that the assumptions used to calculate the staffing requirements for the KITA Program were correct. At the time of our review, they did not know how long it would take to process each return or when the KITA returns would actually be filed.

For further assurance, KITA project officials informed us that they would request that additional personnel from each campus be assigned to work KITA returns, if necessary, in case of unanticipated backlogs that could not be brought under control by using the personnel from the Taxpayer Advocate's Office. However, this decision has not been discussed with management from the other campuses.

Recommendation

To ensure that additional personnel will be available to work KITA returns if needed, the KITA Project Office should:

5. Document their decision to obtain additional technical personnel from each campus to work KITA returns in

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

case of a backlog that cannot be resolved through the use of the Taxpayer Advocate employees. This decision should be shared with management at the affected campuses to ensure the additional technical personnel will be made available.

Management's Response: IRS management disagreed with this recommendation because the decision to use a third tier of staffing was limited to the Andover Campus. In addition, the number of KITA returns received to date has been lower than expected and the amount of time needed to process returns has been within management's estimates. As a result, IRS officials do not anticipate the need to implement any contingencies that were developed.

Office of Audit Comment: The IRS' response states that the decision to use a third tier of staffing was limited to the Andover campus. However, during the audit, IRS management informed us their plans included assigning additional personnel at each campus, if necessary, to handle unanticipated backlogs. This contingency plan was not discussed with the other campuses. In April 2002, IRS management informed us they had already requested that an additional third tier of staffing be available, if necessary, from each IRS campus.

It appears that IRS management has changed their decision about a contingency plan for additional staffing. The IRS' response states that management no longer anticipates the need to implement any contingencies that were developed. As a result of this decision by management, we no longer believe that Recommendation 5 is necessary.

**Additional Procedures Were
Necessary to Work Deceased
Terrorist Victims' Income Tax
Returns**

In general, the KITA Project Office established procedures for controlling KITA returns when received by the IRS, ensuring the returns are forwarded to the employees specially trained to work them, and determining the tax forgiveness due to the victims' families.

However, at the time of our review, additional procedures were needed for: 1) referring suspicious KITA returns to Criminal Investigation (CI) Fraud Detection Centers for review, 2) contacting victims' relatives or representatives

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

for additional information in order to process returns, and 3) performing quality reviews of returns worked by technical employees. We brought these issues to project management's attention and they promptly took corrective action. By establishing these procedures, the IRS reduced risks associated with issuing fraudulent refunds and helped to ensure that tax forgiveness will be accurately and timely provided to victims' families.

The KITA Project Manager informed us that he spoke with the manager at the local Fraud Detection Center to discuss the process for referring suspicious KITA tax returns to Criminal Investigation for review. However, procedures had not yet been established related to this process. We believe that there needed to be an agreement between the KITA Project Office and CI regarding how these returns would be referred and the length of time that CI would take to review the returns, so that valid refunds were not unduly delayed. After we raised this concern, the KITA Project Office developed procedures that addressed when KITA returns should be referred and how long Criminal Investigation would take to review the referral.

In addition, procedures for processing KITA returns did not include detailed guidance related to contacting taxpayers' relatives or representatives and requesting additional information (e.g., copy of death certificate) needed to process tax returns. Specifically, KITA procedures did not address what actions employees working the KITA returns should take if they requested additional information and it was not provided. After we brought this issue to the attention of KITA project officials, they developed procedures that include how many attempts to make to request additional information, how long to wait, and how to handle cases where the information is not provided. By clarifying these procedures, the IRS should be able to provide consistent treatment to all affected taxpayers.

Project officials also told us that they planned to institute a quality review of KITA work to help identify and correct trends that could negatively affect taxpayers. However, at that time, they had not developed quality review procedures

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

specifically related to KITA returns. We raised this as a concern to project management and they have since developed and issued procedures to clarify who would review the KITA returns, the number of returns to be reviewed, the scope of review, and how the results of the review would be shared.

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine the adequacy of the Internal Revenue Service's (IRS) efforts to prepare for the processing of tax returns for those individuals killed as a result of terrorist attacks in the United States. Specifically, we performed the following tests to accomplish this objective:

- I. Determined if the IRS has taken action that provided reasonable assurance that deceased victims of April 19, 1995; September 11, 2001; or anthrax attacks were properly identified on the IRS' computer systems.
 - A. Determined how the IRS identified the taxpayers killed as a result of the terrorist attacks.
 1. Interviewed the Killed in Terrorist Action (KITA) Project Manager to obtain any information related to how affected taxpayers were identified.
 2. Interviewed Wage and Investment Accounts Management employees at the Andover, Atlanta, and Austin Campuses responsible for local implementation of the KITA Program to obtain any information or concerns related to how affected taxpayers were identified.
 3. Obtained and reviewed any documentation related to the identification of affected taxpayers.
 - B. Determined if the KITA indicator was present on deceased victims' tax accounts.
 1. Obtained listings of deceased victims from third-party sources (i.e., Associated Press, Cable News Network, USA Today).
 2. Selected a judgmental sample¹ of 125 deceased victims from the April 19, 1995; September 11, 2001; and anthrax attacks.
 3. Researched Internet sources to obtain sufficient information to identify the deceased victims on IRS' computer systems and determined if the KITA indicator was present on their tax accounts.

¹ We selected a judgmental sample to more efficiently use available audit resources. Also, the IRS' database of the deceased victims was not reliable at the time we selected our sample.

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

- II. Evaluated IRS actions taken to estimate and plan for staffing and training needed to receive and process the KITA returns.
 - A. Assessed IRS decisions regarding the amount of staff that would be assigned to process KITA returns at each of the designated sites.
 - 1. Interviewed the KITA Project Manager to obtain any information related to how staffing plans or models were developed.
 - 2. Interviewed Wage and Investment Accounts Management employees at the Andover, Atlanta, and Austin Campuses, as well as Taxpayer Advocate officials at the Andover, Atlanta, Austin, and Fresno Campuses to obtain any information or concerns related to how staffing plans or models were developed.
 - 3. Obtained and reviewed any documentation related to how the IRS estimated staffing requirements for the program.
 - B. Determined if employees responsible for receiving and processing KITA returns would receive sufficient training.
 - 1. Interviewed the KITA Project Manager to obtain any information related to the type of training that would be provided, when it would be provided, and what employees would be receiving it.
 - 2. Interviewed Wage and Investment Accounts Management employees at the Andover, Atlanta, and Austin Campuses to obtain any information or concerns related to the training of employees.
 - 3. Obtained and reviewed any documentation related to the training that the IRS provided or plans to provide.
- III. Determined the adequacy of procedures and guidelines issued to process KITA returns.
 - A. Obtained and reviewed any procedures for identifying, controlling, and processing KITA returns.
 - B. Interviewed the KITA Project Manager and local Wage and Investment Accounts Management officials at the Andover Campus to obtain information on procedures related to the identification, receipt, and processing of KITA returns.
 - C. Interviewed the KITA Project Manager, Wage and Investment Field Assistance officials, and Small Business/Self-Employed Taxpayer Education officials to determine if any plans were in place for providing assistance to the family members or estates of taxpayers that were killed as a result of the terrorist actions.

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

Appendix II

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations
and Exempt Organizations Programs)

Nancy Nakamura, Director

Jeffrey M. Jones, Audit Manager

Theresa Berube, Senior Auditor

Thomas Seidell, Senior Auditor

Joseph Smith, Senior Auditor

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

Appendix III

Report Distribution List

Commissioner N:C
Commissioner, Small Business/Self-Employed Division S
National Taxpayer Advocate TA
Director, Customer Account Services, Small Business/Self-Employed Division S:CAS
Director, Customer Account Services, Wage and Investment Division W:CAS
Director, Customer Assistance, Relationships, and Education, Wage and Investment
Division W:CAR
Director, Tax Administration Coordination N:ADC:T
Chief Counsel CC
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaisons:
 Commissioner, Wage and Investment Division W
 National Taxpayer Advocate TA
 Director, Customer Account Services, Small Business/Self-Employed Division S:CAS
 Director, Customer Account Services, Wage and Investment Division W:CAS
 Director, Customer Assistance, Relationships, and Education, Wage and Investment
 Division W:CAR

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

Taxpayer Burden – Potential; approximately 2,900 taxpayers that died as a result of the September 11 and anthrax attacks (see page 4).

Methodology Used to Measure the Reported Benefit

Third-party sources reported that approximately 2,900¹ died as a result of the September 11 and anthrax attacks. We recommended that the Internal Revenue Service (IRS) offer the families and representatives of the September 11 and anthrax victims assistance in preparing and filing of claims for tax forgiveness at no cost and communicate this change in policy to IRS walk-in sites responsible for providing the assistance. Communicating this change to victims' families and IRS walk-in sites would help reduce the burden of tax issues for the victims' families.

Type and Value of Outcome Measure:

Taxpayer Rights – Potential; 117 taxpayer accounts affected for victims of the September 11, Oklahoma City, and anthrax terrorist attacks (see page 4).

Methodology Used to Measure the Reported Benefit:

We judgmentally sampled the names of 125 September 11, Oklahoma City, and anthrax victims listed as deceased by third-party sources from a universe of 3,180,² performed our own research to obtain the victim's identifying information, and researched IRS computer systems to determine if the Killed in Terrorist Action (KITA) indicator was present on their tax accounts. Our research showed that the KITA indicator was not present on the tax accounts of 16 September 11, 8 Oklahoma City, and the 5 anthrax victims. The KITA Project Office took immediate action to review the research performed by TIGTA and placed the KITA indicator on

¹ This is an approximate number derived from third-party sources, including the New York City Police Department database, Associated Press, and the Cable News Network.

² This is an approximate number derived from third-party sources, including the Associated Press, USA Today, and the Cable News Network. At the time that we judgmentally sampled the 125 victims, the New York City Police Department database had not been obtained by the IRS. As a result, the TIGTA sampled victims of the April 19, 1995; September 11, 2001; and anthrax attacks from information we obtained exclusively from third-party sources.

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

the 29 accounts. In addition, the IRS placed the KITA indicator on the tax accounts of another 88 Oklahoma City victims.

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

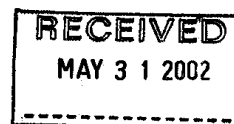
Appendix V

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

May 31, 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Management Advisory Report: Actions Have Been Taken
to Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns but Additional Work Is Necessary
(Audit # 200210009)

As you acknowledged in your report, "Overall, the IRS has done a good job of planning to provide information and assistance to the victims' families related to the filing of KITA [Killed In Terrorist Action] returns. These actions were designed to educate the victims' families of their rights to available tax relief and the process to follow to receive tax forgiveness."

We are continuing to provide the best service possible to citizens affected by terrorist attacks. We took immediate steps after September 11 to grant relief to taxpayers affected by the terrorist attacks. Under the direction of the Commissioner, the Office of Tax Administration Coordination quickly organized and centralized the IRS' response activities. Our Disaster Assistance Program:

- Established two Disaster Relief Centers in New York to provide direct one-on-one assistance
- Established a liaison with Pentagon officials to provide any support needed
- Suspended compliance and collection activities
- Extended deadlines for filing and paying virtually all types of taxes, for those impacted by the attacks
- Developed a data file of dead, injured, and missing to prevent mailing collection and compliance notices to these taxpayers
- Set up a special toll-free assistance number staffed with Customer Service Representatives equipped with step-by-step procedures and specialized training

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

2

- Established the Killed in Terrorist Action (KITA) Project Office at our Andover Campus, to implement special processing procedures and to control and handle KITA cases

After the January 23, 2002, passage of The Victims of Terrorism Tax Relief Act of 2001 (Public Law 107-134), we finalized Publication 3920, "Tax Relief for Victims of Terrorist Attacks," to provide information and procedures for those covered by the law. We believe our efforts provided immediate assistance and relief to citizens as intended by Public Law 107-134.

Your review took place as we started to administer the relief provided by Public Law 107-134. The Treasury Inspector General for Tax Administration (TIGTA) audit team was invited to observe our efforts to develop procedures; arrange staffing and contingencies; interpret the new legislation; and coordinate with state, local, and federal agencies. Your report reflects many of the positive steps we have taken and continue to take to administer the relief provisions.

We disagree with Recommendation 4 suggesting that we offer additional service to the September 11 and anthrax victims. Since the September 11 attacks, we have offered assistance to anyone affected by the terrorist activities. Assistance is readily available by calling our special assistance telephone number, operational since September 24, 2001. A KITA coordinator specifically trained to support and assist with any IRS issues will contact relatives or representatives of victims who call. We do not charge a fee for assistance.

On March 13, 2002, we mailed an information package containing contact information, instructions, Publication 3920, "Tax Relief for Victims of Terrorist Attacks," and appropriate tax forms to relatives and representatives. In addition, we sent media releases and personally contacted the New England and New York Society of CPAs and Enrolled Agents and Congressional Representatives and their staffs to tell them about the availability of our special assistance program. We have been and remain committed to assisting each and every relative or representative who asks for assistance. If they need help with return or claim preparation, we will schedule an appointment at a mutually convenient time and location.

We chose to offer group assistance for the Oklahoma City relatives and representatives because their situation was conducive to this approach. Many of the relatives and representatives still resided in the greater Oklahoma City area. Our office was readily available, fully equipped, and a convenient central point to host group oriented help. We can best serve the individual needs of others covered by The Victims of Terrorism Tax Relief Act of 2001, through the specialized assistance offered by our KITA

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

3

coordinators. When administering disaster assistance or providing relief for "Killed in Action" (KIA) or "Killed in Terrorist Action" (KITA) victims, our policy has always been to offer the broadest range of service possible. We have no limitations based on income or type of return filed when providing this assistance.

Because assistance is readily available through our special toll-free telephone number, we disagree with the Outcome Measure indicating a relief of Taxpayer Burden for your estimated 2,900 victims. We disagree with your Outcome Measure on Taxpayer Rights also. We were in the process of perfecting the list of victims before and during the audit. We were placing the KITA indicators on our computer files, as we received and verified authoritative information on the victims. Therefore, we were safeguarding the rights of those taxpayers covered by the legislation even before your review began.

Our comments on your recommendations:

RECOMMENDATION 1

Complete research of IRS' computer records using the identifying information (name, home address, and social security number) from the New York City database, airline listings, and the Pentagon casualty listings and, if necessary, input the KITA Indicator on the tax accounts of the victims of the September 11 attacks.

ASSESSMENT OF CAUSE

We began in early October to build a database with identifying information for the victims of the September 11 attacks. We gathered information from numerous sources. The information was the best available, in light of the limited authoritative information, time constraints, and the nature of the tragedy. Our Project Office moved quickly to protect the victims and their survivors from inappropriate or insensitive contacts. When the identity of a victim was in doubt, the Project Office elected to stop contacts to taxpayers thought to be affected. The Project Office recognized the limitations of the initial database and perfected it as more reliable information became available. Corrections and updates to the database are ongoing. We make changes to it whenever we receive reliable victim information.

CORRECTIVE ACTION

We updated our computer records based on the most authoritative sources available including the airline listings and the Pentagon list. The New York City Police Department's list of victims was received on March 4, 2002. We completed all updates based on this listing on April 1, 2002.

IMPLEMENTATION DATE

Not Applicable

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

4

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Accounts Management Center, Andover
Director, Accounts Management
Director, Customer Account Services

RECOMMENDATION 2

Reconcile the original list of victims used to identify victims that perished in the September 11 attacks to the updated information provided by the New York City Police Department, and take action to remove the indicator from the accounts of taxpayers that did not perish in the terrorist attacks.

ASSESSMENT OF CAUSE

We began in early October to build a database with identifying information for the victims of the September 11 attacks. We gathered information from numerous sources. The information was the best available, in light of the limited authoritative information, time constraints, and the nature of the tragedy. Our Project Office moved quickly to protect the victims and their survivors from inappropriate or insensitive contacts. When the identity of a victim was in doubt, the Project Office elected to stop contacts to taxpayers who were thought to be affected. The Project Office recognized the limitations of the initial database and perfected it as more reliable information became available. Corrections and updates to the database are ongoing. We make changes to it whenever we receive reliable victim information, including actions to remove the indicator from the taxpayer's account when it is not warranted.

CORRECTIVE ACTION

We reconciled our computer records based on the most authoritative sources available. The New York Police Department's list of victims was received on March 4, 2002. We completed the reconciliation of this information with our database on April 1, 2002.

IMPLEMENTATION DATE

Not Applicable

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Accounts Management Center, Andover
Director, Accounts Management
Director, Customer Account Services

RECOMMENDATION 3

Send out reminder notices to the families of deceased September 11, Oklahoma City, and anthrax victims that have not filed an original or amended KITA return at least 4 months prior to the expiration of the period for filing a claim for tax forgiveness.

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

5

ASSESSMENT OF CAUSE

Even with our efforts to educate the public and identify and contact victims' families, some family members or representatives may not learn about the relief until the period for filing a claim has passed. Our procedures did not provide for an assurance process to determine if those eligible for relief under The Victims of Terrorism Tax Relief Act of 2001 had actually filed to claims for the relief.

CORRECTIVE ACTION

The KITA Project Office has established a suspense database file. As we process returns, the suspense database will be updated to reflect the filing of an original or amended return. We will send a letter to relatives or representatives 4 months before the expiration period, if a return filed indicator does not show on the database. This letter will ensure those eligible for the tax relief are aware we did not receive a return and tell them how to claim relief. We will send these letters to relatives or representatives in September 2002 for Oklahoma City victims and in December 2002 for the anthrax and September 11 victims.

IMPLEMENTATION DATE

September 30, 2002 - Oklahoma City victims
December 31, 2002 - September 11 and anthrax victims

RESPONSIBLE OFFICIALS

Director, Accounts Management Center, Andover
Director, Accounts Management
Director, Customer Account Services

CORRECTIVE ACTION MONITORING PLAN

The KITA Project Manager will update the Director, Accounts Management Center, Andover, on the status of the corrective action during weekly operational briefings.

RECOMMENDATION 4

Offer the families and representatives of the September 11 and anthrax victims assistance in preparing and filing claims for tax forgiveness at no cost. This offer should be made to victims' families in a special mailing. In addition, this policy change should be communicated to IRS walk-in sites responsible for providing assistance.

ASSESSMENT OF CAUSE

We offered to help prepare claims for tax forgiveness for family members and representatives of the Oklahoma City bombing victims, if they attended an "Outreach Session" at the Oklahoma City IRS office. We did not schedule similar events to assist the families of September 11 or Anthrax victims.

Management Advisory Report: Actions Have Been Taken to Prepare for the Processing of Deceased Terrorist Victims' Income Tax Returns, but Additional Work Is Necessary

6

TIGTA states that we waived the return preparation limitations for family members and representatives of deceased terrorism victims so that walk-in sites could help prepare victims' tax returns. TIGTA noted that IRS' procedure had not been updated, nor was this change communicated to IRS offices that prepare returns for the victims' families or representatives.

CORRECTIVE ACTION

We disagree with this recommendation. We have made extensive efforts to ensure relatives and representatives of the victims know that IRS assistance is readily available. We did not change our policy regarding assistance to families or representatives of the victims. We do not charge for assistance, nor do return preparation limitations apply to disaster, KIA or KITA assistance programs.

IMPLEMENTATION DATE

Not Applicable

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Field Assistance

Director, Communications, Assistance, Research & Education (CARE)

Commissioner, Wage and Investment Division

RECOMMENDATION 5

Document the decision to obtain additional technical personnel from each campus to work KITA returns in case of a backlog that cannot be resolved through the use of the Taxpayer Advocate employees. This decision should be shared with the management at the affected campuses to ensure the additional technical personnel will be made available.

ASSESSMENT OF CAUSE

The Project Office identified staff at each of the eight sites that will process returns. We coordinated contingency plans with the National Taxpayer Advocate to provide additional staff if necessary. The National Taxpayer Advocate coordinated the contingency commitment to the Area Campus Directors. Although the local offices may not have been aware, a coordinated plan was in place with the National TAS Directors, if staff was needed. The Project Office also planned to use additional staff from the Andover campus if the initial staff and the Taxpayer Advocate's staff could not handle the KITA workload.

CORRECTIVE ACTION

A corrective action to this recommendation is not needed since the decision to use a third tier of staffing was limited to the Andover campus. The decision to use a third tier of staffing did not impact other locations. We based our initial staffing assumptions on

**Management Advisory Report: Actions Have Been Taken to
Prepare for the Processing of Deceased Terrorist Victims'
Income Tax Returns, but Additional Work Is Necessary**

7

extremely conservative production rates with a provision to train more employees than initially anticipated for back-up purposes. We coordinated a contingency plan with the Taxpayer Advocate as further assurance. In addition, staffing plans and projected and actual workload are discussed in the bi-weekly Project Office conference calls with the KITA coordinators at each processing site. The number of KITA returns we have received has been lower than projected, and processing productivity is within the conservative estimates. We do not anticipate a need to implement any contingencies we developed.

IMPLEMENTATION DATE

Not Applicable

RESPONSIBLE MANAGEMENT OFFICIALS

Director, Accounts Management Center, Andover

Director, Accounts Management

Director, Customer Account Services

Commissioner, Wage and Investment Division

If you have any questions, please call me at (202) 622-6860, or Ron Watson, Director, Customer Account Services at (404) 338-8910.